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Montana Department of Health and Environmental Sciences

MONTANA DEPARTMENT OF HEALTH AND
ENVIRONMENTAL SCIENCES
CONTRACT COMPLIANCE/PERFORMANCE AUDIT
THE TWO FISCAL YEARS ENDED JUNE 30, 1994
AUGUST 25, 1994

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MONTANA DEPARTMENT OF HEALTH AND ENVIRONMENTAL SCIENCES
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August 25, 1994

Mr. Robert J. Robinson, Director
Department of Health and
Environmental Sciences
Room C-108, Cogswell Building
Helena, Montana 59620

Dear Mr. Robinson:

This is the report for the contract compliance and performance audit conducted in the department for the two fiscal years ended June 30, 1994. This report contains the findings and related recommendations resulting from my audit work.

The findings and recommendations presented in this report are intended to improve contracts management within the department. Responses to the findings and recommendations can be found beginning on page 56 of this report.

I would like to extend my appreciation to the staff of the department for their assistance provided during the audit process.

Department of Health and
Environmental Sciences

Joe W. Lundberg
Internal Auditor

"AN EQUAL OPPORTUNITY EMPLOYER"

INTRODUCTION:

A routine contract compliance and performance audit was conducted in the Montana Department of Health and Environmental Sciences for the two fiscal years ending June 30, 1994. The audit was performed to:

> Determine the status of recommendations made during the prior audit;

> Review issues that had been referred to the Internal Auditor since the last audit; and

> Make recommendations to improve the contract management in the department.

BACKGROUND:

The department provides a wide variety of public health services to the citizens of Montana as well as enforcement of environmental health laws of the federal and state governments. A large portion of these services are provided through contracts with local governments, private non-profit organizations and for-profit commercial organizations.

SCOPE:

Contracts selected to audit were identified from the data base maintained on the department's automated contract administration system. Factors taken into consideration in selecting contracts to be included in the audit sample were:

> The dollar amount of the contract or the total dollar amount of the individual task orders written under the authority of a general master contract;

> Past experience with programs and associated problems identified in prior audits;

> The level of on-site contract monitoring by the program staff; and

> Issues that have been referred to the department's internal auditor since the last audit.

My audit work was performed in a manner so as to provide me with sufficient evidence that contracts were being administered according to contract provisions, required deliverables were being provided in a timely manner and management controls were sufficient to ensure contract performance.

This report contains findings and recommendations as a result of my audit work in the department. Findings will be presented by program or contract. Recommendations made, will be applicable to the program or contract but may apply to the entire department for general contract management procedures. This report is for the internal use of the Montana Department of Health and Environmental Sciences' management and program staff. This restriction is not intended to limit the distribution of this report which, when issued, is a matter of public record.

This report covers two years, which is a departure from past practice. The two prior

audit reports were issued annually. The 1993 and 1994 fiscal years were combined this time due to staff time devoted to other issues.

FINDINGS AND RECOMMENDATIONS:

LEAKING UNDERGROUND STORAGE TANK PROGRAM:

EXPIRED TASK ORDER:

During the prior audit, I identified a task order issued for a site in Columbia Falls that had expired prior to completing all of the work. A request to extend the performance period of the task order was made two and one half months after the task order had expired. I recommended to the program that they should make required performance extensions to task orders prior to the time they expire.

In this audit, I identified the same issue with the same contractor at the same site. Task order #13 was executed on June 24, 1992 and expired on May 1, 1993. The contractor

continued to complete work at the site and on June 29, 1993 wrote a letter to the program requesting the task order be extended to May 31, 1993.

The contract under which the task order was written expired on June 30, 1993. A modification to the task order was prepared to extend the performance period to May 31, 1993. The modification was executed on July 20, 1993, twenty days after the master contract had expired.

During the month of May 1993, the contractor had incurred $1,253.78 in costs which were billed to the program but there was no written authorization for the contractor to incur those costs. An invoice for the costs incurred in May plus $42.08 in costs from April was submitted to the program and paid on July 27, 1993.

Because no work was authorized for the contractor after May 1, 1993 and the request for extension of the task order was untimely,

I am questioning all costs incurred by the contractor during the month of May 1993 in the amount of $1,253.78.

RECOMMENDATION #1:

I RECOMMEND THE PROGRAM MODIFY ITS TASK ORDER MONITORING SYSTEM TO MAKE SURE A REVIEW OF ACTIVE TASK ORDERS IS COMPLETED AT LEAST THIRTY DAYS PRIOR TO THE EXPIRATION DATE OF THE TASK ORDER. CONTRACTORS SHOULD BE NOTIFIED OF ALL TASK ORDERS THAT WILL EXPIRE WITHIN THIRTY DAYS SO IF AN EXTENSION OF THE PERFORMANCE PERIOD IS NECESSARY, A MODIFICATION CAN BE MADE IN A TIMELY MANNER. THE PROGRAM SHOULD RESOLVE THE QUESTIONED COST ISSUE.

TASK ORDER STATUS REPORTS:

During the prior audit, I noted contractors were not complying with the master contract requirement of supplying monthly status reports for all active task orders. I tested five task order files for two contractors and found only two reports that had been submitted.

The language in the task orders does not specifically require these reports as a

deliverable, however, they are required in the master contract and contractors should be providing them. If they are not received, the appropriate project officer should contact the contractor and request the reports.

These reports would be of help to project officers in monitoring progress and could also be used to help reduce the risk of task orders expiring before work is completed.

RECOMMENDATION #2:

I RECOMMEND THE PROGRAM EVALUATE THE USEFULNESS OF THE STATUS REPORTS. IF THE PROGRAM DOES NOT FEEL THE REPORTS ARE OF SUFFICIENT VALUE TO RECEIVE THEM, THEN THE REQUIREMENT SHOULD BE REMOVED FROM THE CONTRACT. I STRONGLY RECOMMEND THE REPORTING REQUIREMENT BE RETAINED AND ENFORCED AS IT REPRESENTS A GOOD MANAGEMENT CONTROL. INVOICE PAYMENTS COULD BE WITHHELD FOR NON-COMPLIANCE.

SUB-CONTRACTOR APPROVAL:

DHES contracts generally require written program approval of sub-contracted services

that are estimated to exceed $5,000.00 unless prior approval is given in the master contract. During my testing of files in the LUST Program, I noted that sub-contracted services were being billed but no written approval of the sub-contractor had been given. The total amount of services billed by one sub-contractor was $17,470 with the only back-up documentation was a "job invoice". The "job invoice" contained the amount shown and an explanation of "per our proposal dated 8/31/93".

The task order was not effective until October 18, 1993 so any proposal made prior to that date may not be valid since work should not have begun until the task order was approved.

Under the conditions described above, the program does not have any means to evaluate the propriety of costs being reimbursed for sub-contractors. Risk is increased that unallowable costs are being paid and not detected.

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Under the conditions described above, the program does not have any means to evaluate the propriety of costs being reimbursed for sub-contractors. Risk is increased that unallowable costs are being paid and not detected.

RECOMMENDATION #3:

I RECOMMEND THE PROGRAM COMPLY WITH PROVISIONS IN MASTER CONTRACTS BY PROVIDING WRITTEN APPROVAL OF ALL SUB-CONTRACTED SERVICES IN EXCESS OF $5,000.

SOLID WASTE PROGRAM:

PERFORMANCE DATES AND FILE DOCUMENTATION:

The Solid Waste Program had a contract with the Montana Association of Counties, (MACo) to develop some educational materials on proper and safe disposal of wastes and to conduct training classes. My review of the contract file and related documents revealed that no performance dates had been included in the contract.

Payments were to be made based on the completion of tasks set forth in the contract. I found an invoice in the file for $35,062.50 or 75% of the total amount of the contract. From the information available, it was difficult to determine if the tasks to be

completed had in fact been completed before the payment was made. Approval of completed tasks by the program was also required prior to payments being made. Evidence of such approval was minimal.

RECOMMENDATION #4:

I RECOMMEND PERFORMANCE DATES BE INCLUDED IN ALL CONTRACTS AND THE PROGRAM TAKE STEPS TO ENSURE ADEQUATE DOCUMENTATION IS MAINTAINED IN THE FILES TO SUPPORT REQUIRED APPROVALS AND THAT DELIVERABLES HAVE BEEN RECEIVED.

SITE "E" LANDFILL EIS CONTRACT:

The Solid Waste Program also had a contract for a consultant to develop an environmental impact statement, (EIS) for the location of a landfill in Lewis and Clark County. As with the MACo contract, there were no performance dates included in the contract. There were references to time periods that elapsed since the contract's inception i.e. "120 days after the signing of this agreement".

The contractor submitted monthly reports to the program highlighting accomplishments from the prior month. According to the contract, the preliminary draft of the EIS was due to be submitted to the Solid Waste Program on 9/24/92, (120 days after the agreement was signed). From the contractor's monthly reports I determined the preliminary draft was submitted nearly five months late on 2/16/93.

In part, I believe this delay was due to untimely responses by the program to the contractor. During my review of the contract files I found a letter from the contractor dated 7/30/92 outlining numerous issues and considerations requiring response from the DHES. No response from the DHES was sent until 11/2/92. Again, this delay could have been mitigated had specific performance dates been included in the contract. Since this issue is similar to the previous finding, no additional recommendation is necessary.

EMERGENCY MEDICAL SERVICES BUREAU:

UNTIMELY SUBMISSION OF REPORTS:

The Emergency Medical Services Bureau, (EMS) has contracts with the Montana Department of Justice, Highway Traffic Safety Division, (HTSD). These contracts require quarterly reports to be submitted on January 30, April 30, July 30, and October 30. I tested the file at the HTSD offices for contract #93-05-01 for the federal fiscal year ended September 30, 1993 to determine if the required reports had been submitted in compliance with contract provisions. The following table shows the results of testing.

TABLE I

REPORT PERIOD	DUE DATE	REPORT SUBMITTED
10/1/92 - 12/31/92	1/30/93	10/12/93
1/1/93 - 3/31/93	4/30/93	10/12/93
4/1/93 - 6/30/93	7/30/93	10/12/93
7/1/93 - 9/30/93	10/30/93	Not Submitted

I inquired of personnel in the HTSD if they had made contact with EMS to obtain the reports and they indicated a "couple of phone calls were made with no results".

RECOMMENDATION #5:

I RECOMMEND THE EMS STAFF PREPARE AND SUBMIT REQUIRED REPORTS FOR CONTRACTS IN COMPLIANCE WITH THE PROVISIONS OF THEIR CONTRACTS.

UNTIMELY SUBMISSION OF CONTRACT INVOICES:

Contracts between EMS and HTSD require monthly invoices to be submitted to the HTSD not later than the 12th day of the month following the invoice period. This is necessary due to federal requirements placed on the HTSD for cash draw downs from the federal government. During testing I noted the invoicing requirement was not being followed by the EMS. The following table shows the results of invoice testing.

TABLE II

INVOICE PERIOD	DUE DATE	DATE PREPARED
11/1/92 - 11/30/92	12/12/92	4/23/93
12/1/92 - 12/31/92	1/12/93	4/23/93
1/1/93 - 1/31/93	2/12/93	4/23/93
2/1/93 - 2/28/93	3/12/93	4/23/93
3/1/93 - 3/31/93	4/12/93	4/23/93

The untimely submission of contract invoices resulted in two significant issues. First, the accounting entity used to track the activity for this contract frequently had a negative cash balance. As a result, Support Services Bureau (SSB) staff had to request $8,000 in general fund loans to cover cash needs until the cash was received from the Highway Traffic Safety Division. It should not be a frequent practice to fund non-general fund programs with cash from the general fund which also creates unnecessary accounting transactions.

Secondly, some of the invoices were submitted to the HTSD so late that they could not be

paid because the grant to which they were to charge had been closed. Accordingly, costs in the amount of $3,621.90 incurred in the performance of the contract had to be charged to other funding sources.

I reviewed the current contract invoices to see if improvement in the timeliness of invoice submission had been made. There was some improvement, however, three of five invoices reviewed still had been submitted after the due date.

RECOMMENDATION #6:

I RECOMMEND THE EMS BUREAU ESTABLISH A SYSTEM TO MONITOR CONTRACT RESPONSIBILITIES SO THAT DATES ARE NOT MISSED AND ALL COSTS THAT ARE INCURRED IN ASSOCIATION WITH CONTRACT WORK ARE RECOVERED AND ELIMINATE THE NEED FOR GENERAL FUND LOANS AS WELL AS ABSORBING CONTRACT COSTS BY OTHER FUNDING SOURCES.

JUNK VEHICLE PROGRAM:

AUDIT FOLLOW-UP:

The office of the Legislative Auditor completed a performance audit on the Junk Vehicle Program in 1989. They conducted a follow-up to that audit and issued a report of the results in June 1993. The follow-up report indicated there were still a significant number of issues that had not been addressed since the initial audit report was issued in 1989.

As part of this audit, I conducted an interview with the Junk Vehicle Program manager to assess progress made since the follow-up report was issued in June of 1993.

The program has made appreciable progress in addressing the repeat issues contained in the follow-up report. Timeliness of the receipt of the quarterly log sheets from the counties had improved. I only noted two counties that

were not current with the reporting requirements.

The program is preparing and distributing to county programs, management memos that document requirements of state laws and regulations. The state program is also making training session attendance by county program directors mandatory. Both of these steps should improve compliance.

I reviewed a schedule of graveyard inspections by state program staff as of April 28, 1994. As of that date, 60% of the graveyards had been inspected since January 1, 1994. Timeliness of inspections appears to have improved significantly.

I did note one area where improvement could still be made. This relates to the relationship with the Registrar of Motor Vehicles in Deer Lodge and the state program. There appears to be a lack of understanding by the Registrar in terms of timing of

reports and the information that is to be provided in those reports.

I believe management controls could be significantly improved if the Junk Vehicle program prepared written policies and procedures and made them available to the Registrar as they are now doing with counties. The communication link between the state program should be improved to allow for timely resolution of questions relating to the program's requirements.

RECOMMENDATION #7:

I RECOMMEND THE STATE JUNK VEHICLE PROGRAM PREPARE AND DISTRIBUTE DOCUMENTED PROCEDURES FOR THE REGISTRAR'S BUREAU BASED ON THE REQUIREMENTS OF LAWS AND REGULATIONS. I ALSO RECOMMEND THE STATE JUNK VEHICLE PROGRAM CONSIDER HOLDING A MEETING BETWEEN THE DHES DIRECTOR AND THE ATTORNEY GENERAL (OR HIS REPRESENTATIVE) TO SHOW SUPPORT FOR THE PROGRAM AND TO IMPROVE COMMUNICATION BETWEEN THE TWO AGENCIES.

SUPERFUND PROGRAM:

FEDERAL AUDIT:

In June of 1992, an independent accounting firm under contract to the EPA Office of Inspector General, performed an audit of cooperative agreements between the MDHES and EPA from June 27, 1983 through September 30, 1991. The audit report contained several findings which have since been resolved and the DHES responses have been approved by EPA.

PROVISIONAL OVERHEAD RATES:

The Superfund Program has a contract that was initially executed in April 1989 and subsequently modified to extend the performance period three times. The contract currently expires on September 30, 1994. The first modification also changed the overhead rate from 165% of total direct labor costs to 175% of total direct labor costs.

The initial rate was based on a provisional rate granted to the contractor by the EPA as was the rate allowed by the first contract modification. For the entire life of the contract, no final overhead rate has been established. Accordingly, the costs that have been billed and paid may not represent the actual costs incurred by the contractor.

RECOMMENDATION #8:

I RECOMMEND THE PROGRAM MAKE A FORMAL WRITTEN REQUEST TO THE CONTRACTOR TO ESTABLISH FINAL OVERHEAD RATES FOR AS MANY OF THE YEARS THE CONTRACT HAS BEEN IN EFFECT AS POSSIBLE. THESE RATES MUST BE ESTABLISHED THROUGH AN AUDIT BY THE FEDERAL COGNIZANT AUDIT AGENCY AS REQUIRED BY OUR CONTRACT. I ALSO RECOMMEND THAT THE PROGRAM NOT ENTER INTO A NEW CONTRACT WITH THIS CONTRACTOR UNTIL SATISFACTORY RESOLUTION OF THE OVERHEAD RATE ISSUE IS REACHED.

AIR QUALITY DIVISION:

INCORRECT LABOR AND SAMPLE RATES BILLED:

The Air Quality Division entered into a contract to provide assistance to the Permitting Section with health risk

assessments. The contract contained approved labor rates for employees of the contractor that would be working on the projects. The contract was task order based and invoices were submitted for each task order. I reviewed the files for two task orders to determine if the invoices had been prepared in accordance with the conditions in the contract.

During testing of invoices for task order #1, I found 3 of 9 employees for which time had been billed but there was no approved labor rate. Another employee's time had been billed at one dollar per hour higher than the approved rate. The dollar amount of these errors was calculated to be $235.35. This includes direct labor and associated overhead rates.

Because these charges were improperly billed I question the total costs paid of $235.35.

The division had another contract to provide chemical laboratory analysis of monitoring

filters from Whitefish, Montana monitoring sites. During testing of the invoices associated with this contract, I noted an instance where 12 samples submitted for analysis and were billed at a rate of $72.00, a rate not authorized in the contract.

The project officer completed the invoice approval form indicating they had verified the rates billed against the rates approved in the contract. An accurate comparison of the invoiced rates with the contract rates should have detected this discrepancy. The reason for billing at a rate not authorized in the contract should have been resolved before processing the invoice for payment.

Division personnel researched their records to determine if an incorrect billing had occurred. It was found the billing exception had occurred because the contractor had combined two authorized rates for two different tests. Since the same number of samples were tested for the individual rates no over-charging had occurred.

My audit work revealed another instance of non-compliance involving labor rates. The contract required all labor rates to be billed at the employees' actual rate of pay with the approved overhead rates applied and displayed separately. Two invoices for task order #4 were found to have been billed using the loaded labor rates. Those rates included the overhead rates so it was not possible to readily determine if the actual rate billed was in compliance with the contract approved rates. As an example, one employee's time was billed at $102.49 per hour when the actual approved rate was $37.12 per hour. I removed the applied overhead rates from the rate billed and found there had been no overcharging, only improper billing procedures.

FILE DOCUMENTATION:

During the review of contract file documents, it was found that not all documents relating to the financial aspects of the contracts were easily identified or in some cases

missing. As an example, invoices related to a laboratory services contract were billed on a per sample rate. In order to properly review the invoice, the number of samples submitted is needed to compare with the invoiced number. The audit revealed a deficiency in the ready access to the number of samples submitted.

The contract monitoring system should include a method to easily identify information required for accurate invoice review and approval.

RECOMMENDATION #9:

I RECOMMEND THE DIVISION ESTABLISH WRITTEN PROCEDURES FOR INVOICE REVIEW AND GENERAL CONTRACT OVERSIGHT.

WORK AUTHORIZATIONS:

Two of the contracts administered by the Air Quality Division reviewed during this audit were task order based. This means the authorization to complete work and incur

associated costs is contained in the individual task orders, not in the general contract.

Contract language specifically states no work may begin until the task orders are approved. I noted two instances where work was begun and bills were paid prior to the task orders being signed. One instance involved a task order with a performance period of 7/1/93 to 6/30/94. From the information available, it was not possible to determine the date when work actually began, but an invoice was found that covered a period beginning 9/11/93. The task order was not approved until 11/29/93. Based on the invoice period, it appears that work began nearly two and one half months prior to the actual authorization.

Another instance involved a task order with a performance period of 7/29/92 to 10/16/92. The task order was not approved until 12/11/92.

RECOMMENDATION #10:

I RECOMMEND THE DIVISION COMPLY WITH THE PROVISIONS OF ITS CONTRACTS THAT PROHIBIT WORK FROM BEGINNING UNTIL THE TASK ORDERS ARE APPROVED.

WATER QUALITY DIVISION:

WORK AUTHORIZATIONS:

The safe Drinking Water Program entered into a contract to assist them with the development of public service announcements (PSA) and to provide some training videos. The contract was Task Order based. Task Order #1 was requested to develop a PSA to be used during safe drinking water week, the first week of May 1994. The performance period of the task order was stated to be April 12 through April 29, 1994. The request for the task order was not made until May 18, 1994.

There were two other task orders prepared under this contract with completion dates of

May 31, 1994 and June 30, 1994 but the task orders had not been approved as of June 2, 1994. The combined amounts of all three task orders would have exceeded the available spending authority in the responsibility center for the fiscal year.

The costs incurred for task order #1 of $2,387.00 prior to written authorization were not paid until sufficient spending authority was transferred to the responsibility center. By holding the contractor's invoice until the authority issue was resolved, places the department in the position of possible violation of 17-8-242, MCA, the state prompt payment act.

RECOMMENDATION #11:

I RECOMMEND THE DRINKING WATER PROGRAM NOT ALLOW CONTRACTORS TO COMPLETE WORK AND INCUR COSTS UNTIL THE TASK ORDERS ARE FULLY EXECUTED.

UNAUTHORIZED INDIRECT COST CHARGES:

The Clean Lakes Program entered into a contract with the University of Montana on July 1, 1991 with modifications that extended the performance period through June 30, 1994. The original contract language did not contain any provision for the University to bill indirect costs to the project even though they are an allowable expense. Costs that are not specifically provided for in the contract should not be billed and paid.

A modification was prepared and executed on June 30, 1992 that allowed the University to charge indirect costs to the project. The modification was not made retroactive to the beginning of the contract. Accordingly, I question the indirect costs charged and paid prior to the effective date of the modification in the amount of $1,749.77.

RECOMMENDATION #12:

I RECOMMEND THE PROGRAM RECOVER THE QUESTIONED INDIRECT COSTS FROM THE UNIVERSITY. I ALSO RECOMMEND WHEN MODIFICATIONS ARE PREPARED THE EFFECTIVE DATE BE STATED IN THE MODIFICATION.

EQUIPMENT PURCHASES BY CONTRACTORS:

The Non-Point Source Program entered into a contract to provide it with assistance implementing a salinity control demonstration project. The contract performance period extends through December 31, 1994. The project officer indicated the contract would be extended through June 30, 1995.

The original contract language did not contain any provisions for the purchase and management of equipment. Equipment is defined in state policy as any item costing more than $1,000.00 and having a useful life of more than one year. (The federal dollar threshold for equipment is $5,000.00).

I tested 2 of 4 invoices paid during fiscal year 1994. During testing, I noted there was a major equipment purchase made in August 1993 for $13,216. There are two problems with this purchase. First, since the contract did not contain provisions for equipment management, the contract is not in compliance with the federal Common Rule for grants and contracts and, since the sub-grantee is non-compliant so is the DHES.

The common rule requires sub-grantees to maintain equipment records and provide annual inventory listings to the prime grantee, DHES. There is no requirement for this in the contract to the sub-grantee so they cannot be expected to provide the inventory listing.

RECOMMENDATION #13:

I RECOMMEND THE NON-POINT SOURCE PROGRAM MODIFY ANY CONTRACTS UNDER WHICH EQUIPMENT HAS BEEN PURCHASED TO INCLUDE THE NECESSARY EQUIPMENT MANAGEMENT NEED TO COMPLY WITH FEDERAL AND STATE REGULATIONS.

ADVANCE OF ALLOWANCE PROGRAM--WATER QUALITY:

There is a requirement on the certification for the advance of allowance application that the recipient of the funds will provide the DHES with an annual financial report for all disbursements and vouchers for the project. In a review of the contract language, there was no requirement for such a report.

I asked the program manager if the reports were being received and he indicated the program was not receiving the reports and was unaware of the requirement. He also indicated there was no need for the reports.

RECOMMENDATION #14:

I RECOMMEND THE ADVANCE OF ALLOWANCE PROGRAM EITHER INCLUDE THE REPORTING REQUIREMENT IN THE CONTRACT LANGUAGE IF THE REPORTS ARE NEEDED OR REMOVE THE REQUIREMENT FROM THE APPLICATION FOR PAYMENTS.

MONTANA HEALTH CARE AUTHORITY:

The Montana Health Care Authority, (Authority) was created by the 1993

Legislature to review health care systems in the state and to make recommendations for improvement and change to the governor and the 1995 legislature. The Authority is attached to the DHES for administrative purposes. The findings related to the Authority are presented in this report because the DHES is responsible for its accounting and contracting functions.

EXPIRED CONTRACT:

The Authority had hired a contractor to provide assistance with the development of operating policies and the establishment of the five regional boards as required by law. The contract became effective on October 4, 1993 and ended on December 10, 1993. The contract was approved for $4,950.00.

The contractor continued to work and incur costs after the contract expired. The Authority did not make a request to extend the performance period.

On January 19, 1994, the Authority requested a modification to the contract to extend the performance period to April 1, 1994 and to add an additional $10,000 in funding. Three issues exist with the procedures followed with this contract:

1. Contracts that have expired should not be modified. It is not possible to modify something that does not exist.

2. Costs in the amount of $4,380.34 were incurred without written authorization, which are questioned; and,

3. The Authority should have made a request to modify the contract prior to December 10, 1993, the date the original agreement expired.

RECOMMENDATION #15:

I RECOMMEND THE AUTHORITY DEVELOP A CONTRACT MONITORING SYSTEM THAT WILL PREVENT WORK BEING COMPLETED AFTER

AGREEMENTS EXPIRE. THE SYSTEM SHOULD ENABLE THE AUTHORITY TO MODIFY AGREEMENTS AS NECESSARY BEFORE THE ORIGINAL AGREEMENT ENDS.

CONTRACTOR COMPLIANCE:

During the review of invoices from one of the contractors, it was noted that those invoices were non-compliant with the requirement to certify each invoice as to its mathematical accuracy and correctness. This requirement is placed in all DHES contracts as an internal control for the contractors with the idea someone other than the preparer of the invoice will review it for accuracy. This procedure should reduce the risk of errors on invoices and the need to return them to the contractor for corrections.

RECOMMENDATION #16:

I RECOMMEND THE AUTHORITY REVIEW ALL CONTRACTOR INVOICES FOR COMPLIANCE WITH CONTRACT REQUIREMENTS AND RETURN ANY FOUND NOT TO BE IN COMPLIANCE TO THE CONTRACTOR FOR CORRECTION.

SUB-CONTRACTOR ISSUES:

Generally, sub-contracting is prohibited in all DHES contracts unless approved in writing by both parties or unless the sub-contractors are approved in the language of the master agreement.

The Authority has a contract that involves the use of sub-contractors. One of the sub-contractors was approved in the master agreement. During the audit, evidence of approval of the second sub-contractor was not found.

Copies of the sub-contractor agreements were not on file at the Authority's office. Accordingly, there was no way for the Authority to determine what the sub-contractors were authorized to do, or, what rates were appropriate for charges on invoices.

One of the sub-contractor's invoices reviewed, billed the principal researcher's

hourly rate at 50 cents per hour more than authorized, resulting in an overcharge of $41.00. The sub-contractor billed time for three individuals that had not been approved in the master agreement, resulting in $6,380.00 in unauthorized costs.

There were equipment rental charges billed in the amount of $9,450.00. Based on the formula on the invoice this amount was over-billed by $225.00. The correct amount should have been billed as $9,225.00. The propriety of the rented equipment or the rates charged could not be verified since no copy of the sub-contract could be found. This invoice was not paid so there is no basis for questioned costs.

The conditions described above make fiscal monitoring of contracts difficult because there is no documentation to verify rates, approved personnel and any other costs that may be billed. Also, risk of incurring and payment of unauthorized costs is increased.

RECOMMENDATION #17:

I RECOMMEND THE AUTHORITY MAINTAIN COPIES OF ALL APPROVED SUB-CONTRACTS TO IMPROVE CONTRACT AND SUB-CONTRACT MONITORING.

EFFICIENT USE OF CONTRACTED RESOURCES AND FUNDS:

Prior to beginning audit work at the Authority, the DHES Contracts Officer provided the DHES Internal Auditor with a copy of a memorandum sent to the Authority. The memo expressed concerns over the use of contractor personnel that bill their time at $50.00 per hour to assemble documents, prepare mailings, and deliver printing jobs to a local copy service.

The Authority as all governmental entities, has a fiduciary responsibility to safeguard assets and assure that all resources are used as efficiently as possible to achieve the goals and objectives of the program.

RECOMMENDATION #18:

I RECOMMEND THE AUTHORITY MONITOR ITS GENERAL OPERATIONS INCLUDING CONTRACTORS TO ENSURE ASSETS ARE BEING USED IN THE MOST EFFICIENT MANNER POSSIBLE TO ACHIEVE THE MANDATES OF SENATE BILL 285.

OTHER ISSUES CONCERNING THE AUTHORITY:

During audit field work at the Authority, some minor issues were identified relating to travel administration and property management that have been reported to the Authority in a separate management letter.

WOMEN, INFANTS AND CHILDREN NUTRITION PROGRAM:

The Women, Infants and children special nutrition program, (WIC) generally contracts with local health departments, and occasionally non-profit organizations to provide WIC services. Larger counties often provide WIC services to smaller surrounding counties also referred to as satellite programs.

During the audit at the WIC Program, three county WIC contract files were reviewed. One of the requirements in these contracts is to provide a draft of the satellite agreement to the State WIC Program for approval. For the three county files reviewed there should have been four satellite agreements approved by the State Program. None of the satellite agreements had been submitted to the State Program.

The approval of satellite agreements by the State Program is a good control to ensure the counties are passing on the same requirements to the satellites as the State Program does to the counties. This can prevent unallowed costs from being incurred, only services authorized are provided and only eligible individuals receive services.

RECOMMENDATION #19:

I RECOMMEND THE WIC PROGRAM REQUIRE COUNTIES THAT OPERATE SATELLITE WIC PROGRAMS SUBMITTED THE SATELLITE AGREEMENTS FOR APPROVAL BY THE STATE. COPIES OF THESE AGREEMENTS SHOULD BE MAINTAINED BY THE STATE WIC PROGRAM.

MATERNAL AND CHILD HEALTH CARE BLOCK GRANT:

CONTRACT LANGUAGE FOR FUNDING:

Contracts for the MCH Block Grant are issued for two year periods. The master agreement contains a maximum level of funding available over the life of the contract. Changes to the funding authorization is made through modifications to the contract. These modifications are used to add funds to the agreements as additional money is made available to the DHES MCH program.

During testing of contract files, procedures were performed to determine if the payments made to the counties agreed with the authorized amounts. Difficulties were encountered in verifying the payments with the contract amounts because funding authorizations from one fiscal year were carried forward to the succeeding fiscal year.

In one contract file, I identified $36,182 in funding authorized for fiscal year 1992 that was carried forward in modifications for fiscal year 1993. While the payments made during fiscal year 1993 did not include the amounts authorized for 1992, the language is confusing. It could cause the counties to believe more funding is available than there is. Expenses could be incurred for which there is no funds available to cover.

RECOMMENDATION #20:

I RECOMMEND THE MCH PROGRAM WORK WITH THE CONTRACTS OFFICER TO DEVELOP CONTRACT MODIFICATION LANGUAGE SO FUNDING LEVEL CHANGES ARE ONLY PRESENTED FOR THE FISCAL YEAR AFFECTED.

FINANCIAL/COMPLIANCE MONITORING:

As part of the audit of the MCH Program, county financial reports were examined for mathematical accuracy and compliance with contract requirements. During the prior audit period, problems were identified with the accuracy of financial reports.

During the current audit period, I identified three issues considered to be reportable conditions. One issue involves mathematical accuracy of the financial reports. For the files tested, a comparison of the year-end expenditure accrual amounts was made with the ending balance on the last expenditure report submitted by the counties.

This comparison revealed two instances where the amounts did not agree. In one case the year-to-date expenditures were not correctly added and as a result overstated expenditures and understated the ending contract balance. I asked the MCH Bureau person responsible for reviewing the reports about the error and he stated he didn't care about the balances.

The information provided on the financial reports is intended to assist the program to monitor the contracts, and is used to prepare federal financial reports. Accuracy is necessary and should be reviewed. When errors are detected the county should be contact to correct the problem.

The next issue involves the purchase of a computer by a county. The county purchased a computer and submitted a request for reimbursement in addition to the normal quarterly request. The MCH Bureau authorized a reimbursement in the amount of $2,782.00 and a state warrant was processed on December 22, 1993.

There was no provision for the purchase in the contract budget so the bureau made the reimbursement from a funding source other than the encumbrance for the contract. The contracts state no equipment may be purchased without written authorization from DHES. No such authorization was found.

During a review of the same county's regular financial reports, it was discovered that a reimbursement request was made on the third quarter report for the computer and was again paid on a state warrant processed on May 31, 1994. An adequate contract and equipment purchase monitoring system should have prevented this double payment.

I reviewed twelve financial reports from four counties to determine compliance with the reporting deadline. The contract states reports are due by the last day of the month following the quarter being reported for. Of the twelve reports reviewed, ten were late ranging from 5 days late to more than 90 days late. Again there should a monitoring system to address this issue.

RECOMMENDATION #21:

AS HAS BEEN RECOMMENDED IN THE TWO PRIOR AUDIT REPORTS, I RECOMMEND THE MCH BUREAU IMPLEMENT A CONTRACT MONITORING SYSTEM TO VERIFY MATHEMATICAL ACCURACY OF FINANCIAL REPORTS AND ENSURE TIMELY RECEIPT OF REPORTS. THE BUREAU SHOULD ALSO HAVE A SYSTEM TO TRACK EQUIPMENT PURCHASED BY THE COUNTIES AND REIMBURSED BY THE BUREAU.

IMPROPER REPORTING OF GRANT RELATED INCOME:

During fiscal 1993, one county selected for review had received funding from the Preventive Health Block Grant for "high risk children". The county reported this funding

on the MCH Block Grant financial reports as grant related income, when in fact it is reportable under separate contract requirements. Federal funds from other grant sources are not considered to be grant related income by definition in the Common Rule. In checking with the Preventive Health Bureau, it was found to have been reported to the bureau as appropriate. The issue is double reporting which could result in incorrect financial reporting to federal granting agencies.

RECOMMENDATION #22:

I RECOMMEND THE BUREAU REVIEW FINANCIAL REPORTS SO THAT ONLY REVENUE AND EXPENDITURES APPLICABLE TO THE MCH CONTRACTS ARE REPORTED.

MONTANA PERINATAL PROGRAM:

FINANCIAL REPORTING SYSTEM:

The Perinatal Program contracts with counties to provide services to citizens and provides

funds for the services. In addition to the funding for the general services, the program requires the counties to perform infant mortality reviews for which the counties are reimbursed $50.00 per review. The reimbursements for the infant mortality reviews are not reported on the financial statement for the general program expenditures. As a result, the total expenditure of funds authorized in the contracts are not reported on the expenditure report form.

At the end of fiscal year 1994 an accrual was made for one county in the amount of $17,673.30. When the county's June 1994 expenditure report was received, the expenses of $16,676.30 were reimbursed. The State Program indicated this was a final payment and the balance of the accrual was liquidated. The program staff indicated during the audit there were still expenses for infant mortality reviews coming in for fiscal year 1994, which will require payment through a prior period adjustment. This

would not have been necessary if all costs had been reported on one form.

RECOMMENDATION #23:

I RECOMMEND THE PERINATAL PROGRAM INCLUDE ALL CONTRACT EXPENSES ON ONE FORM.

AIDS PROGRAM:

FINANCIAL REPORTING SUPPORTING DOCUMENTATION:

The AIDS Program has an interagency service agreement with the Montana Department of Social and Rehabilitation Services, (SRS). The agreement provides for insurance premium reimbursements to individuals with HIV infection or AIDS and that qualify according to federal low income guidelines.

SRS reimburses qualified individuals and maintains records of the payments made. The State AIDS Program prepares quarterly program and financial reports for the federal granting agency. In the reporting process,

the program calls SRS to obtain the amount of reimbursements made during the quarter. The information is given and included in the federal report. No documentation is kept in the AIDS Program's files to support the federal reports. The agreement does not require SRS to submit written reports.

RECOMMENDATION #24:

I RECOMMEND THE AIDS PROGRAM MODIFY ITS CONTRACT TO REQUIRE SRS TO SUBMIT WRITTEN FINANCIAL REPORTS TO SUPPORT FEDERAL GRANT REPORTS.

CHILD NUTRITION PROGRAM---FEDERAL COMPLIANCE:

The Child Nutrition Program had an agreement with a day care center during fiscal year 1994. The center was in the process of applying for a tax exempt status determination from the Internal Revenue Service. Tax exempt status is required for participation in the USDA Child and Adult Food Care Program.

Federal regulations allow the state program to contract with institutions if they do not have tax exempt status as long as the institution is in the process of securing a determination letter from the IRS.

In a letter dated March 22, 1994, the IRS informed the day care center its application for tax exempt status had been denied. According to federal regulations, the institution is to notify the state program immediately if the tax exempt application is denied by the IRS.

The state program received a copy of the March 22 letter from the IRS on April 13, 1994 along with an application for participation in the CACFP under the provisions of Title XX of the Social Security Act. According to federal regulations, the state program should have terminated the original agreement upon notification of the denial of the tax exempt status and prepared a new agreement under the provisions of Title XX, proprietary centers.

The program did not request a change in the agreement until June 27, 1994. Between the time the state program was notified the tax exempt status was denied and action was taken to change agreement provisions, payments of $2,274.25 for costs in April and May 1994 were made. While program records indicate the day care center was entitled to the payments under Title XX, the agreement under which the payments were made did not contain the criteria for eligibility under Title XX.

The conditions described above increase the risk that payments could be made to organizations that are not eligible to participate in the CACFP under Title XX provisions.

RECOMMENDATION #25:

I RECOMMEND THE PROGRAM COMPLY WITH FEDERAL REGULATIONS PERTAINING TO TAX EXEMPT STATUS REQUIREMENTS FOR PARTICIPANTS IN THE CACFP. COMPLIANCE CAN BE ENHANCED BY CHANGING THE LANGUAGE IN THE AGREEMENTS FROM "MAY TERMINATE" TO "SHALL TERMINATE" IN SECTION IV OF THE AGREEMENTS.

NOTE: Additional concerns relating to monitoring, staff utilization and information systems have been made in a separate management memo.

IMMUNIZATION PROGRAM:

The State Immunization Program has contracts with counties to provide immunization services to children in the state. These contracts require quarterly program activity reports. During my review of the report files I noted there was no prescribed format for the report. Reports reviewed did not always provide the period covered by the report, reports were not easily followed, and the files were generally disorganized.

I discussed this issue with program staff and they were aware of the problem. The had already prepared a standard format for the quarterly reports and will implement the use of the forms with the new contracts on October 1. 1994.

The preceding information was presented for disclosure purposes and no recommendation is needed at this time.

DEPARTMENT-WIDE CONCERNS:

There continues to be wide-spread work being completed outside of the performance period of contracts and/or task orders. During the audit, I noted instances where work was completed before the work was authorized to begin and after the authorizations had expired.

The department's contracts officer has had a positive impact in reducing the occurrence of unauthorized work being completed but the number of instances of unauthorized work is still excessive. It is nearly impossible for the contracts officer to prevent work from being completed before he is notified of the intent to contract for services.

The department is still lacking comprehensive policy and procedures for contracts

management. Contract management training is still inadequate. Both of these problems can largely be attributed to a lack of staff dedicated for these purposes.

The Department has a policy and procedures manual that is intended to assist employees to complete their work assignments in accordance with federal and state requirements and department policy. Several problems exist relating to this manual.

1. An exact inventory of the holders of the policy manuals is not current or available;

2. During the audit I found that most employees were not aware of the manual's existence or where to find a copy of one; and

3. Manuals are not complete and in some cases contain outdated information.

RECOMMENDATION #26:

I RECOMMEND THE DEPARTMENT DO THE FOLLOWING:

1. INVENTORY ALL POLICY MANUALS TO DETERMINE WHO HAS THEM. ASSESS WHO SHOULD POSSESS A COPY;

2. ESTABLISH A POLICY COMMITTEE TO REVIEW EXISTING POLICIES AND DETERMINE WHICH POLICIES ARE OUT-OF-DATE, NEED REVISIONS AND CONSIDER RECOMMENDING NEW POLICIES TO MEET FEDERAL AND STATE REGULATIONS; AND

3. ESTABLISH A METHODOLOGY TO COMPLETE AN UPDATE OF MANUALS AS DETERMINE IN ITEM TWO ABOVE AND DISTRIBUTE UPDATED MANUALS TO HOLDERS AS DETERMINED APPROPRIATE.

PRIOR AUDIT RECOMMENDATION STATUS:

During the prior audit there were 18 recommendations that are still applicable to the department. Of those recommendations, 10 have been implemented, 1 has been partially implemented and 7 have not been implemented.

Montana Department of Health and Environmental Sciences
Schedule of Questioned Costs
For The Two Fiscal Years Ended June 30, 1994

Division, Bureau or Program	Contract Number	Questioned Costs
Air Quality Division	230059	$ 235.35
Leaking Underground Storage Tanks	510002 T.O. 13	1,253.78
Health Care Authority	140008	4,380.34[1]
Water Quality Division	220046	1,749.77
Total Questioned Costs		$7,619.24

[1] NOTE: The source of these questioned costs is an appropriation from the State General Fund

AUDIT RESPONSES

DEPARTMENT OF
HEALTH AND ENVIRONMENTAL SCIENCES
Underground Storage Tank Program
(406) 444-5970

FAX # (406) 444-1902

STATE OF MONTANA

OFFICE LOCATION: 2209 PHOENIX AVE. HELENA, MONTANA

MAILING ADDRESS: PO BOX 200901 HELENA, MT 59620-0901

MEMORANDUM

RECEIVED
SEP 13 1994
MDHES
DIRECTOR'S OFFICE

TO: Joe Lundberg - Support Services

FROM: Jeff Kuhn, Corrective Action Program Manager

DATE: September 9, 1994

SUBJECT: August 30, 1994 Contract Audit Report

The contract audit report identified three problem areas where the LUST Trust Program needs to modify or correct its contracting procedures:

1) **Expired task orders:**

We concur with the recommendation to review all active task orders 30 days prior to the expiration date of the task order. **We will also notify contractors of all task orders that will expire within 30 days so that any necessary ending date extensions may be made. One way to accompish this is to place the task order ending date in a box on the front of the final order that is signed by all parties.** This would be an easier reference than finding the ending date in the text at the end of the contract.

2) **Task order status reports:**

The recommendation provided is warranted. We have had the same problem in previous years with our contractors not providing monthly status reports for active task orders. The audit states that five task order files were tested for two contractors and only two monthly reports were found to be submitted. I checked our Master Contract files for all five contractors and found that two of the contractors (Chen-Northern and Tetra-Tech) have done a good job in submitting monthly status reports. The other three contractors need to be reminded of this requirement. **We will draft a letter to all five contractors reminding them of this obligation.** Please note in future audits that the monthly status reports are filed in the Master Contract file cabinets as a separate file folder marked "Monthly Status Reports" and are not typically filed with individual task orders as they reflect work at more than one site and may involve review by all three LUST Trust project managers.

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3) **Subcontractor Approval:**

I will remind all LUST Trust Staff and LUST Trust contractors that subcontracts in excess of $5,000.00 require written approval by the LUST Trust Program as specified in the master contracts. **I will draft a letter to all LUST consultants specifying this requirement as well as the requirement for submittal of monthly status reports as specified above in item #2.**

cc: John Geach - UST Program
LUST Trust Program Staff

memo1.164

DEPARTMENT OF
HEALTH AND ENVIRONMENTAL SCIENCES
Waste Management Division
Solid Waste Program
406/444-1430
FAX # (406) 444-1499

SEP 19 1994

STATE OF MONTANA

OFFICE LOCATION: 2209 PHOENIX AVE. HELENA, MONTANA
MAILING ADDRESS: PO BOX 200901 HELENA, MT 59620-0901

MEMORANDUM

TO: Joe Lundberg

DATE: September 19, 1994

FROM: Jon Dilliard JD

SUBJECT: Contract Audit Report.

In response to your Contract Audit Report of August 30, 1994 - Recommendation #4, the Solid Waste Program concurs with the general findings; however, I would like to make the following comments concerning the findings.

1. Performance Dates - The performance required in some contracts does not lend itself well to the establishment of specific performance dates. As an example, the Montana Association of Counties (MACo) contract to conduct training class depends heavily on resources from out-of-state organizations such as the Solid Waste Association of North America (SWANA). The availability of SWANA training resources, lecturers, speakers, and certified trainers depends on demands for the services nationwide. Also much the personnel used for training are landfill managers and operators from other states. Their availability is highly dependant on the needs and demands of their own operations. Therefore, it is many times impossible for a specific performance date to be set in a contract until SWANA or other resources can assess the demands for the service and choose the time they can devote to training in Montana. To eliminate this potential problem with performance dates, the MACo contract has not established exact performance dates but specifically outlines the type of training to be provided and the exact compensation for each training event.

2. Approvals of Completed Tasks - In the audit discussion, it mentions that "Approval of completed tasks by the program was also required prior to payments being made. Evidence of such approval was minimal." This is also mentioned in the recommendation. I find this to be is a little confusing in relation to the MACo contract. I am not aware of the condition in this contract that requires written approval from the

"AN EQUAL OPPORTUNITY EMPLOYER"

program that deliverables have been received. As I understand the requirements of the contract, MACo must submit a detailed course description to the DHES for approval prior to conducting the training. After the training MACo must submit a written report detailing the results of the training. Only the course description prior to the training is required under the contract to be approved by the Department. The final report does not require written approval.

The program files for the MACo contract contains a section for performance indicators. Within this section of the file are the course descriptions and final reports for each of the training sessions. Also in this section are the program's approvals for the course descriptions; however, approvals for the deliverables (training results) are minimal because they were not required by the contract.

Thank you for the opportunity to comment on the findings of your Contract Audit Report. If you have any questions, please do not hesitate to contact me.

Motor Vehicle Recycling & Disposal Program
(406) 444-1430

MEMORANDUM

TO: Joe Lundberg

VIA: Roger Thorvilson

FROM: Darrell Stankey

DATE: September 15, 1994

SUBJECT: Internal Audit

RECOMMENDATION #7

We concur with the recommendations as they pertain to the Motor Vehicle Recycling & Disposal Program. We would also like to note that interaction between the Title & Registration Bureau and the Motor Vehicle Recycling & Disposal Program have already occurred and are on going.

SEP 15 9?

MEMORANDUM

To: Joe Lundberg, Internal Auditor

From: Neil Marsh, Superfund Neil

Date: September 14, 1994

Subject: Response to 1994 Contract Compliance Audit Recommendation No. 8

Your audit revealed difficulties associated with the fact that one of the Superfund Program's contractors, GeoTrans, Inc., had not established a final overhead rate for any of the years of its contract with the Department. You were concerned that the Department could incur potential cost liability in the future when final rates are established to replace the provisional rates. The following recommendation was offered in your audit report:

Recommendation #8:

I recommend the program make a formal written request to the contractor to establish final overhead rates for as many of the years the contract has been in effect as possible. These rates must be established through an audit by the federal cognizant audit agency as required by our contract. I also recommend that the program not enter into a new contract with this contractor until satisfactory resolution of the overhead rate issue is reached.

The Superfund Program has taken the following actions that we believe satisfactorily address all elements of your recommendation:

1. At first notification of your concern in May 1994, we requested from GeoTrans a report of the status of audits of its indirect rates by the cognizant federal audit agency, in this case the Defense Contract Audit Agency (DCAA). GeoTrans provided the attached response, which indicated that a final rate had been established for FY 1989 and that the company anticipated a final FY 1990 rate would be established within six months. In addition, GeoTrans provided us with identification of indirect rates submitted to DCAA for approval as final for FY 1990 through FY 1993, and the statement that DCAA has, in the past, accepted its final rates as proposed. You'll note in the table below that the proposed final

rates for recent years are lower than in FY 1990. Our request for this information was not made in writing, but the GeoTrans response is clear and unambiguous. As the response notes, neither GeoTrans nor MDHES can require DCAA to conduct the audits more quickly. However, the GeoTrans identification of its proposed final rate is sufficient for us to assess our potential cost liability.

2. The Program evaluated the potential liability to the Department by comparing costs associated with the provisional rate with those utilizing the proposed final rates. Since the proposed final rates are similar to the provisional, little potential liability is shown. FY 1989 and FY 1990 were not included in the calculation because during those years the Department made payment to GeoTrans to reconcile differences between the provisional and anticipated actual indirect rates.

Fiscal Year	Provisional Rate	Proposed Final Rate	OH Rate Diff.	Direct Labor Cost	Potent. Cost Diff.
1991	175.00%	180.80%	5.8%	$13,908	$807
1992	175.00%	174.82%	-0.18%	$13,310	-$240
1993	175.00%	178.60%	3.6%	$5,146	$185
Total					$752

3. The Program is in the process of rewriting the contract with GeoTrans. It has been involved at the BN Livingston site since our work began there and changing to another contractor during the final wrapping up of the site would not be efficient or cost-effective. We believe that the response provided by GeoTrans to our request to identify its final overhead rates and our cost liability has satisfied fully the question raised in your audit. In light of the above information, we therefore recommend that we proceed with revising our contract with GeoTrans as planned.

I would appreciate your review of this information and would like you to indicate to me whether this issue is closed. Thanks for your help. If you have any questions, please feel free to call me.

DEPARTMENT OF
HEALTH AND ENVIRONMENTAL SCIENCES
AIR QUALITY DIVISION

SEP 15 94

OFFICE MEMORANDUM

TO: Joe Lundberg **DATE:** September 14, 1994

FROM: Jeff Chaffee

SUBJECT: AQD Responses to Internal Audit Report

Staff of the Air Quality Division (AQD) have reviewed the "Contract Audit Report" dated August 30, 1994 and offer the following responses to the findings and recommendations:

Recommendation #9: I recommend the Bureau establish written procedures for invoice review and general contract oversight.

Response: AQD agrees that written procedures for invoice review and contract oversight are needed to facilitate proper contract implementation. Our technical staff have been assigned contract oversight responsibilities and they often lack the training or experience to fully complete their oversight role. In addition, these same staff have a significant workload with their regular duties and may not have sufficient time for a detailed review of invoices and all aspects of contract compliance. To address these deficiencies, AQD is proposing to hire an administrative officer (financial management) to assist us in managing our budgets, grants, fees and contracts. It will be a primary duty of this position to develop written procedures for review of invoices and for oversight of contracts. Once these procedures are developed, AQD administrative staff will assist with contractor invoice review and approval. Review of technical requirements and products emanating from contracts will remain the responsibility of AQD technical staff. In regards to the schedule for implementing this plan, we are currently developing a position description for the financial officer and will proceed with hiring as soon as classification is complete. We will plan to work with the department contracts manager during the interim to identify issues and improve on our contract oversight procedures.

In regard to the findings of the internal contracts audit, AQD has followed up on the discrepancies noted in the report and corrected the billing problems (see attached). There were no overcharges resulting from the invoicing problems; however, we acknowledge the need to tighten up on our review as discussed above.

Recommendation #10: I recommend the Bureau comply with the provisions of its contracts that prohibit work from beginning until the task orders are approved.

Response: AQD agrees with the auditor's recommendation that we need to comply with contract provisions. At the time of the infractions, the division was struggling to balance our statutory time frames for issuance of air quality permits against the amount of time needed to complete task orders under the contract. In order to meet permitting time frames, the contractor started work before the Task Order was fully approved. To address this problem, AQD worked with the department contracts manager to develop a modification to the contract allowing faster approval of Task Orders in line with our time frames. We are still under a very tight time frame for permit reviews and contractor assistance, but feel that a workable system has been developed.

AQD appreciates the auditors efforts in reviewing our contracting procedures and making suggestions for improvements. If you have additional input on our suggested solutions, please contact me at your convenience.

JC:cs

cc: Curt Chisholm

MEMORANDUM

September 19, 1994

SEP 19 94

TO: Bob Robinson

FROM: , Steve Pilcher

SUBJECT: DHES Internal Audit

We have reviewed the Internal Audit Report prepared by Joe Lundberg and considered the recommendations for the Water Quality Division. We will respond to the recommendations in the order in which they were presented.

RECOMMENDATION #11:

I RECOMMEND THE DRINKING WATER PROGRAM NOT ALLOW CONTRACTORS TO COMPLETE WORK AND INCUR COSTS UNTIL THE TASK ORDERS ARE FULLY EXECUTED.

Response: We agree with this recommendation and will inform staff of the same. We should not, however, the mangers of the drinking water program discussed this specific matter with the DHES contract's officer and were advised to proceed in the manner in which they did.

RECOMMENDATION #12:

I RECOMMEND THE PROGRAM RECOVER THE QUESTIONED INDIRECT COSTS FROM THE UNIVERSITY. I ALSO RECOMMEND WHEN MODIFICATIONS ARE PREPARED THE EFFECTIVE DATE BE STATED IN THE MODIFICATION.

Response: We agree with the recommendation that an effective date be stated in any contract modification. We do, however, question the appropriateness of attempting to recover the questioned indirect costs. The billing and payment of University indirect costs was intended by both parties from the beginning of the contract. The contract has been closed out and we see little benefit gained from an attempt to recover the questioned costs. We will, in the future, be certain that indirect costs are explicitly identified in the contract.

RECOMMENDATION #13:

I RECOMMEND THE NON-POINT SOURCE PROGRAM MODIFY ANY CONTRACTS UNDER WHICH EQUIPMENT HAS BEEN PURCHASED TO INCLUDE THE NECESSARY EQUIPMENT MANAGEMENT NEEDED TO COMPLY WITH FEDERAL AND STATE REGULATIONS.

Response: We agree with the recommendation. The contract in question will be modified this fall and we will include provisions for equipment management as required.

RECOMMENDATION #14:

I RECOMMEND THE ADVANCE OF ALLOWANCE PROGRAM EITHER INCLUDE THE REPORTING REQUIREMENTS IN THE CONTRACT LANGUAGE IF THE REPORTS ARE NEEDED OR REMOVE THE REQUIREMENT FROM THE APPLICATION FOR PAYMENTS.

Response: We will remove the reporting requirement from the Application for Advance of Allowance Payment. The Federal Register, Vol. 49, No. 34, Friday, February 17, 1984 state in part that "...EPA will not audit the use of these funds." And, further states that " Allowances are not auditable..."

If you have any questions regarding these responses, please feel free to contact me.

cc: Joe Lundberg

MONTANA HEALTH CARE AUTHORITY

RECEIVED
1 4 1994
MDHES
DIRECTOR'S OFFICE

TO: Joe W. Lundberg, DHES Internal Auditor, through Bob Robinson, Director

FROM: Sam Hubbard, Executive Director

DATE: September 12, 1994

RE: Contract Audit Report Response

Following each contract audit recommendation is a response on behalf of the Health Care Authority.

RECOMMENDATION #15: "I recommend the Authority develop a contract monitoring system that will prevent work being completed after agreements expire. The system should enable the Authority to modify agreements as necessary before the original agreement ends."

RESPONSE: The Authority concurs with the recommendation. The Authority shall review contracts at periodic intervals not to exceed thirty days in length to determine if modifications are necessary to extend agreements if additional time is required to fulfill the terms of the agreement.

RECOMMENDATION #16: "I recommend the Authority review all contractor invoices for compliance with contract requirements and return any found not to be in compliance to the contractor for correction."

RESPONSE: The Authority concurs with the recommendation and has instituted the recommended process for each invoice received from contractors.

RECOMMENDATION #17: "I recommend the Authority maintain copies of all approved sub-contracts to improve contract and sub-contract monitoring."

RESPONSE: The authority concurs with the recommendation and is in the process of obtaining copies of all approved subcontracts. Copies of each of the approved subcontracts should be in Authority possession no later than September 30, 1994.

28 N. LAST CHANCE GULCH · P.O. BOX 200901 · HELENA, MONTANA 59620-0901
406/443-3390 · FAX 406/443-3417 · 800-733-8208

RECOMMENDATION #18: "I recommend the Authority monitor its general operations including contractors to ensure assets are being used in the most efficient manner possible to achieve the mandates of Senate Bill 285."

RESPONSE: The Authority disagrees, therefore does not concur, with the spirit in which recommendation #18 is presented. First, there is no reason to believe that such a recommendation is necessary since the Authority continues to make sincere and conscientious efforts at conducting its complex general operations, including contract administration, to ensure resources and "assets" are being "used" in the most efficient manner possible. In addition to the attached letter from the specific contractor questioned in the "findings" which led to this recommendation, the Authority finds that this recommendation insinuates that a capricious and careless governance of its internal operations and contract monitoring exists. The recommendation further alleges that the Authority has not ensured that "assets" are being used on the most efficient manner possible to achieve the mandates of SB285. The Authority believes it is much better positioned to determine SB285 mandates with its numerous and complex features requiring a highly efficient use of minimal staffing.

Further, to suggest that the Authority is not acting in good conscience in its efforts as a government agency with fiduciary responsibilities to safeguard its assets and assure that all resources are used as efficiently as possible to achieve the goals and objectives of the program, as stated in the narrative discussion prior to the recommendation, is nothing short of accusing the Authority of cheating the people of the State of Montana. Finally, it is completely unprofessional to make contract audit recommendations based on a memorandum which in itself should not have been written without a full and complete investigation before being submitted to the Authority.

attachment

July 1, 1994

MEMORANDUM

TO: Sam Hubbard

FROM: SY

RE: 6/20 DHES Legal Memorandum

A number of concerns leave me shaking my head regarding comments from DHES contract review staff regarding the proper use of my time and consultant resources on May 11 - 13, 1994.

First, how are department personnel even able to make the judgements they render so lightly? Their comments reflect no understanding whatsoever of the complexity of the project, the amount of work required to bring this phase to completion, the constrained timetable for its production, and the limited talent available to comprehend the breadth of the process.

They suggest that I should have "contracted out" any portions of the project, where feasible. They then produce their own documentation to show that I did precisely that!

Let's reconstruct the environment of those days. First, the hours I recorded on May 11 were spent in transposing the health status indicator data from hard copy to electronic format. (A review of my timesheet will show a difference in terminology: "generation" for May 11, and "assembly" for the May 12 and 13. It was only on the morning of May 12 that we had enough census data available to assemble the "phase one" draft plans. May 12 was the deadline we had set for mailing the drafts to members, and I was personally committing myself to see that the deadline was met. Regional board meetings were just a few days away, and I have long ago grown tired of setting deadlines just to miss them. Assembling sixty-plus notebooks, each containing hundreds of pages of data, given the amount of data contained and the complexity of assembling them in correct order, and getting them mailed by 5:30 pm, would be no small feat. It was a wise decision to dedicate one person to keeping the task on time while assuring absolute quality control.

It was also decided that Authority members should have a copy of the phase one draft, and these were assembled on May 13.

As noted above, and in the DHES memo, I shipped out what parts of the job could be produced by a quick printer. Additional production work had to be done in-house. No Authority staff was available due to the Authority meeting at the Capitol (and the job was specifically the responsibility of the consultants, anyway.) There was not sufficient time to procure the appropriate level of temporary service (as I doubt anyone would have guaranteed the completion of the work in the period of time available), not sufficient time to monitor their work, no time available to correct any mistakes, and no room to tolerate a response of "Sorry, we didn't make it."

Secondly, who do they think I am? If our mission were to "take" the Authority for all we could, there would likely be dozens of ways to accomplish the task. I am a former director of the budget office and governor's chief of staff who has some "slight" experience with managing time and tasks, producing complex documents, scrutinizing procedures, advocating opportunities to contract out, etc., etc., etc.

In the perfect world, consultants to state government are executives who sit in air-conditioned offices, in unwrinkled shirts, where they occasionally, but quickly and briefly, think up perfect ideas that make exponential improvements in the efficiency or quality of service delivery. It is a goal that we all aspire to, but on the way, the constraints of reality dictate that we occasionally roll up our sleeves and "just do it." This was one of those rare occasions.

In my opinion, this is not the kind of issue to go to war over. I do, however, find it curious and frustrating, and would list it on the "down side" of the ledger.

STATE DEPARTMENT OF HEALTH
AND ENVIRONMENTAL SCIENCES

SEP 13 1994

M E M O R A N D U M

TO: Joe Lundberg

FROM: Charles Aagenes

DATE: September 12, 1994

SUBJECT: Internal Audit Responses

The following are Health Services Division responses to your audit findings and recommendations of Department activities. For the most part Health Services Division managers are in agreement with your findings and in the following comments have described how the problems have been resolved.

If you have any questions about the following responses please let me know.

Family/MCH Bureau

The following is offered in response to the several recommendations made regarding the Maternal and Child Health Block Grant. It is noted that none of the progress made over the past year has been acknowledged, nor has the request for a Lotus program which was offered been followed up. This provides a disincentive for support staff to continue to improve the process of monitoring. Likewise, limited inservice has been made available to support staff (who typically are not accounting majors) in order to assist them in new roles in contract monitoring.

It is our recommendation that ongoing educational programs be offered with goals of continual improvement of the contracting and monitoring processes.

Recommendation #20: I recommend the MCH Program work with the contracts officer to develop contract modification language so funding level changes are only presented for the fiscal year affected.

Response:

There is no entity titled "MCH Program".

All contracts are written by the Contracts Officer and Legal Unit. We agree that the consideration section is confusing. Payments are made based on information on encumbrance sheets provided by the

Support Services Bureau. This makes it very unlikely that improper payments will be made.

We will work with the Contracts Officer and Legal Unit to make the consideration portion of the agreement more specific as to how much funding will be provided for each fiscal year.

Recommendation #21: As has been recommended in the two prior audit reports, I recommend the MCH Bureau implement a contract monitoring system to verify the mathematical accuracy of financial reports and ensure timely receipt of reports. The Bureau should also have a system to track equipment purchased by the counties and reimbursed by the Bureau.

Response:

Mathematical Accuracy: The issue is that the information on Attachment A "is intended to assist the program to monitor the contracts, and . . . used to prepare federal financial reports." The financial information on Attachment A is used by the Family/MCH Bureau to reimburse the county for the current billing period. More stringent attention will be paid to "balances" in the future. It should be noted that Attachment A is not used to prepare any federal reports that the Family/MCH Bureau is responsible for preparing. If it is used by the Support Services Bureau to prepare federal financial reports, we have never been made aware of this use of this particular form.

As noted above, the encumbrance sheets provided by Support Services Bureau are used to assure that balances are correct. Attachment B is what is used by the F/MCH Bureau to prepare federal reports.

Equipment Purchase: The purchase of the computer for the Great Falls Lead Program was made from the MCH Data Utilization Grant following the request of Cascade County. It was determined that a modification to the MCH Block Grant Agreement was a proper way to handle this request instead of developing a separate agreement with Cascade County. This may have been an error. The development of the modification to the Block Grant contract followed discussion with Cascade City County Health Department and the Contracts Officer. The modification generated a separate encumbrance sheet and was paid for separately from the Block Grant payments. The computer was billed for and was authorized for payment on December 17, 1993. Cascade County erroneously billed again for the computer on their third quarter MCHBG report, and this amount was paid in error. Cascade County will need to refund this amount.

The infrequent requests for equipment purchases through MCH Block Grant funds are handled appropriately.

Reporting Deadline: Monitoring of reporting deadlines is extremely difficult. Counties are reminded regularly that they are the ones penalized when reports are late, in that their payments are

Child Nutrition Program

Recommendation #25:
There is consensus with recommendation #25 to immediately terminate the original agreement of any tax exempt day care center upon notification of denial of tax exempt status by the IRS. The wording in Section IV of the agreement will be changed from "may terminate" to "shall terminate".
An application was submitted by a day care center for participation in CACFP under the provisions of Title XX of the Social Security Act along with a letter from the IRS denying tax exempt status. This created confusion as to the correct process to follow since the center submitted documentation for qualification under Title XX. The intent of our actions was to allow continuation of uninterrupted service from CACFP to the center until a new agreement or modification was instituted.

This was the first Title XX center added to our program in Montana. After consultation with regional office staff and other state CACFP directors who had established Title XX agreements, a decision was made to modify the agreement to include Title XX requirements. During the modification process, reimbursements were made to the center for April and May, 1994.

In the future, any center denied tax exempt status will be immediately terminated from CACFP and all subsequent reimbursements stopped.

Emergency Medical Services Bureau

AUDIT FINDING: UNTIMELY SUBMISSION OF REPORTS

We concur with this finding.

AUDIT RECOMMENDATION (#5): THE EMS STAFF PREPARE AND SUBMIT REQUIRED REPORTS FOR CONTRACTS IN COMPLIANCE WITH THE PROVISIONS OF THEIR CONTRACTS

By November 15, 1994, the EMS Bureau will develop a bureau-specific contract monitoring, reporting and invoicing policy to include, as a minimum:

- A more clear delineation of who is responsible for monitoring and reporting each bureau contract and grant and a clarification of their responsibilities and authorities,

- The establishment of a tickler file to assure the timely submission of reports and invoices for payment,

- Improved diligence of bureau management to contract monitoring and financial reporting responsibilities.

AUDIT FINDING: UNTIMELY SUBMISSION OF CONTRACT INVOICES

We concur with this finding.

delayed. During this past fiscal year, counties had to become familiar with the new billing system; many did not establish regular reporting deadlines. The new modification states that the counties can bill no more often than monthly which should prevent late billing statements (except the one due at the end of the fiscal year).

Recommendation #22: I recommend the Bureau review financial reports so that only revenue and expenditures applicable to the MCH contracts are reported.

Response:

Information about "sources" of grant related income can be added to the definition list provided to counties, in an attempt to improve their accuracy in reporting.

WIC Program

Recommendation #19:
We concur with recommendation number 19 of the subject audit. We will obtain the required satellite agreements per the WIC contracts.

Perinatal Program

Recommendation #23:
I concur with your audit exception which recommends that all contract expenses be included on one form. We had already identified the separate submission of the Fetal and Infant Mortality Review home interviews and medical abstracts as difficult to monitor. We believe that by having projects include the number of submissions on the expenditure report, we would be better able to monitor the FIMR costs.

Attached please find a copy of the MIAMI expenditure report form, with an italicized addition requesting the number of FIMR review documents which were submitted with the report. I propose sending this revised expenditure report to all contractees by October 1, and require they include the information with the October report (due November 30th).

It seems appropriate to point out that beginning with the next biennial contracts, there will be no separate FIMR payments, but the amount will be included in the base contract amount. The average of the amounts billed each of the last two contract years will be the amount we add to the contract i.e. County A billed us for $400 the first contract year, and $600 the second contract year; the amount of the contract will be increased by $500.

MIAMI PROJECT
Expenditure Report

Project Location_____

Time Period_____

Date Submitted_____

CATEGORY	TOTAL BUDGET	MPP CONTRACT BUDGET	MPP CONTRACT YTD EXP	LOCAL/OTHER BUDGET	LOCAL/OTHER YTD EXP	TOTAL EXPENDITURES
SALARIES						
BENEFITS						
ACCESS COSTS						
PRINTING						
SUPPLIES/ MATERIALS						
TRAVEL/ MEETINGS						
TELEPHONE						
POSTAGE						
RENT						
EVALUATION						
	CURRENT MONTH EXPENDITURE					
TOTAL						

ndicate the number of FIMR medical abstracts _____ and home interviews _____ submitted with his expenditure report.

COMPLETE THIS BOX WITH ANNUAL REPORT

TOTAL IMR REIMBURSEMENT FOR REPORTED FISCAL YEAR $_____

TOTAL YTD EXPENDITURES:

FEDERAL	$_____	_____%
STATE	$_____	_____%
COUNTY	$_____	_____%
OTHER (SPECIFY)_____	$_____	_____%
TOTAL PROJECT COSTS	$_____	_____%

PREPARED BY_____
Name Title

APPROVED BY_____
Name Title

AUDIT RECOMMENDATION (#6): THE EMS BUREAU ESTABLISH A SYSTEM TO MONITOR CONTRACT RESPONSIBILITIES SO THAT DATES ARE NOT MISSED AND ALL COSTS THAT ARE INCURRED IN ASSOCIATION WITH CONTRACT WORK ARE RECOVERED AND ELIMINATE THE NEED FOR GENERAL FUND LOANS AS WELL AS ABSORBING CONTRACT COSTS BY OTHER FUNDING SOURCES.

See response to audit recommendation #5.

AIDS/STD Program

Recommendation #24:
We concur with the recommendation above regarding an interagency service agreement with the Department of Social and Rehabilitation Services. We have contacted Kathy Rucker of SRS and she has agreed to send MDHES written documentation quarterly of the premium reimbursements SRS makes to individuals. If written reports are received as discussed, MDHES will modify its interagency agreement with SRS when it is renewed in March, 1995. If not, MDHES will modify its agreement before then.

Immunization Program

The Immunization Program recognized that although reporting compliance for contracts with counties participating in the Immunization Action Plan was adequately monitored, the reporting format left something to be desired. With the new contracts that will begin October 1, 1994, a standardized reporting form has been developed and will be required to be used. The format was designed to simplify the reporting requirement and will require a minimum of effort to complete and submit quarterly. Although simplified, it should provide the Immunization Program with the required information.

The filing system is organized by county and information is easily retrievable. Quarterly reports may have been filed out of sequence within the county folder at the time of audit. These will be checked and reorganized.

DEPARTMENT OF
HEALTH AND ENVIRONMENTAL SCIENCES
CENTRALIZED SERVICES DIVISION

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September 27, 1994

Mr. Joe W. Lundberg, Internal Auditor
Montana Department of Health and
Environmental Sciences
Room C-123, Cogswell Building
Helena, Montana 59620

Dear Joe:

This is the Department's response to Recommendation #26 in your contract compliance audit report.

RECOMMENDATION #26:

It was recommended the department do the following:

1. Inventory all policy manuals to determine who has them. Assess who should possess a copy.

RESPONSE: Concur. It would also be beneficial for employees to have access to the policies and procedures through the computer system.

2. Establish a policy committee to review existing policies and determine which policies are out-of-date, need revisions and consider recommending new policies to meet federal and state regulations.

RESPONSE: Concur.

3. Establish a methodology to complete an update of manuals as determined in item two above and distribute updated manuals to holders as appropriate.

RESPONSE: Concur.

Sincerely,

Robert J. Robinson
Director

"AN EQUAL OPPORTUNITY EMPLOYER"

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